

Last year may be remembered as one of the toughest the financial world has ever faced. As we respond to today's market realities, our

focus is on safeguarding
the future health and retirement security
for California's public employees.

Operations Summary

Fiscal Year Ended June 30, 2009

California Public Employees' Retirement System
A Component Unit of the State of California

CalPERS

CalPERS Profile

The California Public Employees' Retirement System (CalPERS) is the nation's largest public pension fund with net assets of approximately \$181.1 billion as of June 30, 2009.

Headquartered in Sacramento, CalPERS provides retirement and health benefit services to more than 1.6 million members and 3,026 school and public employers. The System also operates eight Regional Offices located in Fresno, Glendale, Orange, Sacramento, San Diego, San Bernardino, San Jose, and Walnut Creek.

Led by a 13-member Board of Administration, consisting of member-elected, appointed, and ex officio members, CalPERS membership consists of 1,134,397 active and inactive members and 492,513¹ retirees, beneficiaries, and survivors from State, school and public agencies.

Established by legislation in 1931, the System became operational in 1932 for the purpose of providing a secure retirement to State employees who dedicate their careers to public service.

In 1939, new legislation allowed public agency and classified school employees to join the System for retirement benefits. CalPERS began administering health benefits for State employees in 1962, and five years later, public agencies joined the Health Program on a contract basis.

A defined benefit retirement plan, CalPERS provides benefits based on a member's years of service, age, and highest compensation. In addition, benefits are provided for disability and death.

Today CalPERS offers additional programs, including long-term care insurance, a member home loan program, a deferred compensation retirement savings plan, member education services, and an employer trust for post-retirement benefits. Learn more at our Web site at www.calpers.ca.gov.

¹ This figure includes those retirees, beneficiaries and survivors who receive either a monthly allowance or a one-time-only payment. For fiscal reporting purposes, the Comprehensive Annual Financial Report, in most instances, includes only those who receive a monthly allowance.

Operations Summary

Fiscal Year Ended June 30, 2009

Available online at www.calpers.ca.gov

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CalPERS

California Public Employees' Retirement System
A Component Unit of the State of California

President's Message

I am pleased to present the CalPERS Operations Summary and Comprehensive Annual Financial Report outlining our accomplishments and initiatives for the fiscal year ended June 30, 2009.

The Board welcomed two new members during the 2008-09 fiscal year. Dan Dunmoyer was appointed by Governor Schwarzenegger as the insurance industry representative and Patricia Clarey was appointed as the representative for the State Personnel Board (SPB). In elections held in Fall 2009 for our two at-large member seats, Kurato Shimada was re-elected and JJ Jelincic was elected to his first term to our Board.

In January 2009, the Board selected Anne Stausboll as CalPERS new Chief Executive Officer (CEO), and then in February selected Joseph A. Dear as our new Chief Investment Officer (CIO).

Ms. Stausboll became the first female CEO to lead our fund in its 77-year history. She is a familiar face to our CalPERS family having previously served as our Deputy General Counsel, Chief Operating Investment Officer, and interim Chief Investment Officer. Her experience with CalPERS — as well as her leadership and government policy experience — give her tremendous insight into leading our organization during these challenging times.

Mr. Dear brings more than 20 years of experience managing large governmental bodies, most recently



Rob Feckner,
President
CalPERS Board
of Administration

serving as Executive Director of the Washington State Investment Board. He is also the Chair of the Council of Institutional Investors, an association of public, union, and corporate pension funds that advocate for good corporate governance in financial markets. He is a strong asset to CalPERS as we respond to current market conditions and develop strategies to maximize returns and safeguard retirement security for our members.

During the past year, investors faced some of the most extraordinary circumstances of our time. The market downturn significantly impacted both small and large investors, and was different from previous downturns for two reasons. First, it was global, and second, it affected every asset class and sector, providing no safe harbor from declining values.

CalPERS investments were not immune to the effects of the downturn and the market value of our assets declined by 24.8 percent for the fiscal year. While this is the largest single-year decline in our history, our long-term 20-year investment return is positive at 7.75 percent. At the end of the fiscal year, our net assets stood at \$181.1 billion.

The Board's expeditious response to the unusual market conditions demonstrates our steadfast commitment to our fiduciary responsibility. That commitment has been a hallmark of our organization, and it has assured our resiliency through every challenge we have faced in our 77-year history.

The Board's expeditious response to these unusual market conditions demonstrates our steadfast commitment to our fiduciary responsibility. That commitment has been a hallmark of our organization, and has assured our resiliency. Also key to our resiliency is a fundamental conviction that our diversified, long-term investment strategy will be successful. During the past 25 years, we've had 19 positive years with an average return of 17 percent.

We are employing a disciplined approach to favorably position our investments, while carefully managing risk. In December 2008, the Board revised our asset allocation — raising our investment target in private equity and cash. We began to realign relationships with hedge fund and private equity partners and placed more emphasis on harnessing new investment opportunities.

The financial market decline raised awareness of the need for greater risk management. In April 2009, we established an Ad Hoc Risk Management Committee to enhance our risk assessment framework, protect our systems and programs, and provide a disciplined risk strategy across our entire operation.

The developments of the past year demonstrated the need for many of the corporate governance reforms that we have long advocated. We worked nationally to restore investor confidence in the capital markets by pushing corporate governance reforms.

We joined with several leading public pension funds to develop the *Principles of Financial Regulation Reform: A Model for Change*. It outlines a set of five financial regulation principles aimed at restoring confidence in the global capital markets. We called on Congress to introduce new safe-

guards to ensure that credit rating agencies are closely regulated and are subject to codes of professional conduct; and we worked with other investors to educate the Securities and Exchange Commission on the important right for shareowners to have a voice in director elections. In the aftermath of the crisis, we felt the time was ripe to advance governance changes.

Another issue that received attention during the year was the use of placement agents in the investment industry. These agents receive fees from investment firms who introduce investment opportunities to pension funds like CalPERS. Our Board adopted its own internal policies for disclosure and took a leadership role in sponsoring legislation that placement agents be subject to the same strict regulations as lobbyists under the California Pension Reform Act.

In the area of investment diversity, we commissioned a study to evaluate the performance of companies with diverse Boards. *The Board Diversification Strategy: Realizing Competitive Advantage and Shareowner Value* report shows that companies with diverse Boards — especially gender based diversification — have higher performance on key financial metrics such as return on equity, return on sales, and return on invested capital. We'll be using these findings as we encourage companies that we invest in to demonstrate better corporate governance.

We recognized early on that the market downturn was going to impact the contributions of our employers and took immediate steps to ease that impact. The CalPERS Board approved a new rate-smoothing plan for local agencies and schools. Under the plan, the one year of unusually high investment losses will be phased into employer rates over three years, and be paid off over a fixed 30-year amortization period. The actions were a reasonable and prudent way to address an extraordinary economic event.

On another front, we also made significant progress with our California Employers' Retiree Benefit Trust Fund (CERBTf). This investment vehicle helps employers prefund future retiree health and Other Post Employment Benefit (OPEB) costs. This year, 124 agencies joined the program, and 196 agencies had contributions in excess of \$595 million at the end of the fiscal year.

Also this year, our staff continued to develop the enhanced myCalPERS, our new Web-based system that will allow members to see their retirement and health benefits picture. Key activities this year involved educating both employers and CalPERS staff about the new

system, and beginning to communicate with our members about the new features of the site.

In the health care area, I am pleased to report that the 2010 health benefit rates increase overall premiums by an average of just 2.9 percent — the lowest average rate increase in 14 years. This historically low premium increase demonstrates the effectiveness of the strategic initiatives we have implemented over the past several years, which have resulted in cost reduction and better health outcomes.

Our Board also approved using \$265 million in excess reserves from our self-funded PPO health plans to offset two months of premiums and contributions paid by PPO members and employers. The excess reserves are the

The historically low premium increase of health benefit rates demonstrates the effectiveness of the strategic initiatives we have implemented over the past several years, which have resulted in cost reduction and better health outcomes.

result of PPO members increasing their use of generic drugs, having fewer hospital admissions, and making cost-effective health care decisions.

In conclusion, I want to thank our leadership team for their leadership and dedication to our members and employers. I also want to thank all of our employees for their hard work and commitment. We have some of the best people in the business working to ensure the sustainability of our pension system. Despite ongoing workload demands, budget cuts, mandatory furloughs, and personal

financial challenges, we have maintained our commitment to getting the job done — safeguarding the retirement and health security of California’s public employees.

I’m often reminded that CalPERS was created at the height of the Great Depression. We have weathered many market storms and challenges and have emerged from them stronger and well positioned to take advantage of future opportunities. I’m confident that we will persevere through the current economic conditions and challenges once again.

Sincerely,
Rob Feckner, President
CalPERS Board of Administration

Despite ongoing workload demands, budget cuts, mandatory furloughs, and personal financial challenges, we have maintained our commitment to getting the job done — safeguarding the retirement and health security of California’s public employees.

Financial Highlights

Public Employees' Retirement Fund ¹ | (Dollars in Thousands)

	2009	2008
ASSETS		
Cash & Cash Equivalent	\$574,518	\$420,354
Total Receivables	3,316,502	3,540,653
Total Investments at Fair Value	183,543,809	237,129,465
Securities Lending Collateral	24,347,602	35,177,731
Capital Assets & Others	434,038	389,962
TOTAL ASSETS	\$212,216,469	\$276,658,165
LIABILITIES		
Retirement Benefits in Process of Payment, Investment Settlement & Other	\$8,310,893	\$3,564,955
Securities Lending Obligations	25,005,693	35,177,731
TOTAL LIABILITIES	\$33,316,586	\$38,742,686
TOTAL NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$178,899,883	\$237,915,479

Additions & Deductions | (Dollars in Thousands)

	2009	2008
ADDITIONS		
Member Contributions	\$3,882,355	\$3,512,075
Employer Contributions	6,912,376	7,242,802
Net Investment (Loss) Income	(57,367,054)	(12,499,110)
Other	3,155	6,202
TOTAL ADDITIONS	(\$46,569,168)	(\$1,738,031)
DEDUCTIONS		
Retirement, Death & Survivor Benefits	\$11,831,836	\$10,884,417
Refunds	186,783	182,415
Administrative Costs	427,809	402,340
Other Expenses	—	—
TOTAL DEDUCTIONS	\$12,446,428	\$11,469,172
(DECREASE) INCREASE IN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	(\$59,015,596)	(\$13,207,203)

Note:

¹ Differences in the amount shown for investment assets in these financial highlights and the investment portfolio amount reported in the Investments Section of this Summary are due to differences in reporting methods. In accordance with Governmental Accounting Standards Board Statement No. 28, the financial statements include securities lending collateral. Net investment receivables/payables are not included here.

Complete financial information on all the funds administered by CalPERS can be found in the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2009.

Board of Administration

Rob Feckner, President

Employer Member (elected by school members)
Glazing Specialist, Napa Valley Unified
School District

Term Ends: January 15, 2011

George Diehr, Vice President

Employee Member (elected by State members)
Professor, CSU San Mateo

Term Ends: January 15, 2011

John Chiang

State Controller
Ex Officio Member

Patricia Clarey

(Maeley L. Tom November – December 2009)

State Personnel Board Member (designated
by the State Personnel Board)

Term Ends: Serves at the pleasure of the SPB

Dan Dunmoyer

(Marjorie Berte through May 2009)

Official of Life Insurer¹

Senior Vice President,

Legislative and Regulatory Affairs
Farmers Insurance Groups of Companies
and Zurich Financial Services

Term Ends: January 15, 2013

Debbie Endsley

(David Gilb through August 2009)

Director, Department of Personnel
Administration

Ex Officio Member

JJ Jelincic

(Charles P. Valdes, term expired January 15, 2010)

Employee Member (elected by all members)

Investment Officer III, CalPERS

Term Ends: January 15, 2014

Henry Jones

Retired Member (elected by retirees)

Retired Chief Financial Officer,

Los Angeles Unified School District

Term Ends: January 15, 2012

Bill Lockyer

State Treasurer

Ex Officio Member

Priya Mathur

Employee Member (elected by public agency members)

Economist, Bay Area Rapid Transit

Term Ends: January 15, 2011

Louis F. Moret

Public Representative²

Term Ends: January 15, 2012

Tony Oliveira

Elected Official of Local Government¹

Kings County Supervisor

Term Ends: January 15, 2011

Kurato Shimada

Employee Member (elected by all members)

Retired, Supervisor of Operations,

Oak Grove School District

Term Ends: January 15, 2014

¹ Governor appointee

² Appointed jointly by the Speaker of the Assembly
and the Senate Rules Committee



BOARD OF ADMINISTRATION *(as of December 2009)*

From left to right: John Chiang, Bill Lockyer, Henry Jones, Dan Dunmoyer, Priya Mathur, George Diehr, Rob Feckner, Louis F. Moret, Debbie Endsley, Maeley L. Tom, Kurato Shimada, Greg Beatty,¹ and Tony Oliveira, (Charles P. Valdes, JJ Jelincic, and Patricia Clarey not shown)

¹ Representative of the Department of Personnel Administration.

Board Committees

In addition to their regular duties, Board Members also serve on permanent and ad hoc committees to review specific programs, projects, or issues and make recommendations to the Board. The following committees were active as of June 30, 2009.

BENEFITS & PROGRAM ADMINISTRATION

This committee reviews all matters related to benefit program structure, actuarial studies and rate setting, retirement program policy, and administrative issues.

Kurato Shimada, *Chair*

Rob Feckner, *Vice Chair*

John Chiang

Patricia Clarey¹

George Diehr

Debbie Endsley²

Henry Jones

Priya Mathur

Tony Oliveira

HEALTH BENEFITS

This committee oversees the administration of the Public Employees' Medical & Hospital Care Act program and the Public Employees' Long-Term Care Act program.

Priya Mathur, *Chair*

Tony Oliveira, *Vice Chair*

John Chiang

George Diehr

Debbie Endsley²

Rob Feckner

JJ Jelincic³

Henry Jones

Bill Lockyer

PERFORMANCE & COMPENSATION

This committee studies and evaluates compensation mechanisms and criteria, develops policies and procedures, and makes recommendations to the Board concerning compensation of key personnel.

Patricia Clarey, *Chair*

Dan Dunmoyer⁴, *Vice Chair*

George Diehr³

Debbie Endsley²

Bill Lockyer

Louis F. Moret

Tony Oliveira

FINANCE

This committee provides financial oversight on all budget matters, evaluates funding alternatives, oversees preparation and recommends approval of the CalPERS budget, and oversees the CalPERS annual and periodic audits by both internal and external audit units.

Henry Jones, *Chair*

Louis F. Moret, *Vice Chair*

John Chiang

JJ Jelincic

Bill Lockyer

Tony Oliveira

Kurato Shimada

INVESTMENT

This committee reviews investment transactions, the investment performance of both internal and external managers, and establishes investment policy and strategy.

George Diehr, *Chair*

Tony Oliveira, *Vice Chair*

John Chiang

Patricia Clarey¹

Dan Dunmoyer⁴

Debbie Endsley²

Rob Feckner

JJ Jelincic³

Henry Jones

Bill Lockyer

Priya Mathur

Louis F. Moret

Kurato Shimada

INVESTMENT POLICY SUBCOMMITTEE

This subcommittee conducts an inventory of all existing investment policies, procedures, and guidelines for review by the Investment Committee and reviews and recommends revisions to these on a priority basis. It is also charged with developing a manual of policies, procedures, and guidelines, and a process for periodic revisions.

Louis F. Moret, *Chair*

(Henry Jones through January 2010)

JJ Jelincic³, *Vice Chair*

Patricia Clarey¹

George Diehr

Priya Mathur

AD HOC BOARD GOVERNANCE COMMITTEE

This committee reviews the Board's internal governance procedures and recommends to the Board any changes or additions to existing policies.

Rob Feckner, *Chair*

George Diehr, *Vice Chair*

Henry Jones

Priya Mathur

Louis F. Moret

Tony Oliveira

Kurato Shimada

AD HOC RISK MANAGEMENT COMMITTEE

This committee reviews and enhances the framework for system wide risk of the pension fund's governance and operations, including its primary business of investments, health care, and retirement. The committee is comprised of the Board President and the current Chairs of all other Board committees.

Tony Oliveira, *Chair*

Henry Jones, *Vice Chair*

George Diehr

Rob Feckner

Priya Mathur

Louis F. Moret

Kurato Shimada

¹ Maeley L. Tom November 2009 through December 2009

² David Gilb through August 2009

³ Charles P. Valdes term expired January 15, 2010

⁴ Marjorie Berte through May 2009

Executive Staff

Anne Stausboll

Chief Executive Officer

*(Ken Marzion, Interim, through
January 2009)*

Stephen W. Kessler

Deputy Executive Officer,
Operations

*(Gloria Moore Andrews through
December 2008)*

Kathleen Hamilton

Deputy Executive Officer,
Benefits Administration

*(Jarvio A. Grevious through
November 2008)*

Teri Bennett

Assistant Executive Officer,
Information Technology Services

Joseph Dear

Chief Investment Officer

*(Anne Stausboll, Interim, through
January 2009)*

Robert David

Assistant Executive Officer,
Health Benefits

*(Gregory Franklin through
September 2009)*
(Currently vacant)

Sheri Hofer

Privacy and Security Officer,

Enterprise Privacy & Security Office

Larry Jensen

Assistant Executive Officer,
Administrative Services

(John Hiber through May 2009)

Donna Lum

Assistant Executive Officer,
Member & Benefit Services

(Kathie Vaughn through December 2008)

Patricia K. Macht

Director,

External Affairs

*(Assistant Executive Officer,
Office of Public Affairs, through July 2009)*

Ken Marzion

Chief Operating Investment Officer (Interim),
Investment Operations

(Anne Stausboll through January 2009)

Peter H. Mixon

General Counsel

Ron Seeling

Chief Actuary,

Actuarial & Employer Services



EXECUTIVE STAFF *(as of December 2009)*

From left to right: Patricia K. Macht, Sheri Hofer, Joseph Dear, Kenneth W. Marzion, Peter H. Mixon, Anne Stausboll, Robert P. David, Larry Jensen, Kathleen Hamilton, Teri Bennett, Ron Seeling, Donna Lum, (Stephen W. Kessler not shown)

Division Chiefs, Project Managers, and Senior Investment Officers

Ellen Badley

Division Chief (Interim),
Office of Health Policy &
Program Support

(Sandra Felderstein through May 2009)

Eric Baggesen

Senior Investment Officer,
Global Public Equity

Terry Bridges

Project Manager,
Pension System Resumption
Project

Danny Brown

Division Chief,
Office of Governmental Affairs

Karen DeFrank

Project Manager,
Public Employer Readiness Team
(Rand Anderson through July 2009)

Ted Eliopoulos

Senior Investment Officer,
Real Estate

Christian Farland

Project Manager,
Enterprise Transition Management
(Kristie Santos through July 2008)

Mary Lynn Fisher

Division Chief,
Benefit Services
(Donna Lum through September 2008)

Matthew Flynn

Division Chief,
Operations, Performance and
Technology

Holly Fong

Division Chief,
Office of Employer & Member
Health Services

Russell Fong

Division Chief,
Fiscal Services

Curtis Ishii

Senior Investment Officer,
Global Fixed Income

Geraldine Jimenez

Division Chief,
Affiliate Investment Programs

Nancy Johnson

Division Chief,
Technology Services & Support

Sherry Johnstone

Chief Compliance Officer,
Office of Enterprise Compliance

Margaret Junker

Chief Auditor (Interim),
Office of Audit Services
(Larry Jensen through May 2009)

Ron Kraft

Division Chief,
Customer Service & Education

Farouki Majeed

Senior Investment Officer,
Asset Allocation & Risk Management

Kim Malm

Division Chief,
Operations Support Services

Lori McGartland

Division Chief,
Employer Services

Alan Milligan

Deputy Chief Actuary,
Actuarial Office

Kami Niebank

Division Chief,
Policy & Business Support
Investments Office

Ken Nitschke

Division Chief,
Office of Policy &
Program Development

Chris O'Brien

Division Chief,
Human Resources

Renee Ostrander

Division Chief,
Information Technology
Administration

Brad Pacheco

Division Chief,
Office of Public Affairs

Lindy E. Plaza
Diversity Officer of Internal
Operations,
Diversity Outreach Program

Gina Ratto
Deputy General Counsel,
Legal Office

John Rice
Division Chief (Interim),
Office of Health Plan
Administration
(Ellen Badley through May 2009)

John Saxon
Division Chief,
Innovation & Implementation
Services

Leon Shahinian
Senior Investment Officer,
Alternative Investment
Management

Anthony Suine
Business Deputy Project Manager,
Pension System Resumption
Project

Darryl Watson
Division Chief,
Member Services

Nancy Quinlan
Division Chief,
Strategic Management Services
(Kami Niebank through October 2008)

Regional Office Managers

Evelyn Perez
Fresno

Edith Mercer
Glendale

Laura Duran
Orange

Christine Campana
Sacramento

Betty White
San Diego

June Copple
San Bernardino

Elwin Nash
San Jose

Mary Aberg
Walnut Creek

Pension Plan Services for Members & Employers

\$11.83 billion

paid in retirement benefits

86% of CalPERS retirees, survivors, and beneficiaries live in California and for every \$1 they receive in pensions, they put back \$2 into the State's economy.

contribution rates. The economic downturn and its impact on government budgets gave critics of government pensions an opening to portray public employee pensions as being overly generous and unsustainable.

However, CalPERS is a long-term investor and short-term fluctuations in pension fund assets, while disconcerting,

do not affect our long-term ability to pay benefits. CalPERS has weathered many recessions in our 77-year history. We survived the 1987 stock market crash and the 1990

The past fiscal year was perhaps the most challenging in the 77-year history of CalPERS. The economic recession that began in December 2007 picked up steam by the middle of 2008, and by the latter part of 2008, the U.S. financial system and investment markets were in need of federal government intervention to prevent further demise.

The economic turmoil caused a sharp downturn in the financial markets — the U.S. stock market lost about half of its value by the spring of 2009, and real estate values plummeted, resulting in a sharp drop in the value of the CalPERS pension fund. Understandably, this produced anxiety for both our members and employers.

Members were concerned about how the drop in the value of the CalPERS pension fund would affect the security of their retirement benefits. Employers, facing recession-related budget shortfalls, were concerned about how the decline in asset values would affect future

Retirement Program Highlights

1,134,397

active & inactive
members

\$11.83 billion

in benefits paid
fiscal year 2008-09

492,513

retirees, beneficiaries
& survivors

3,026

public agency employers
(including school districts)

recession. During the 2001 recession, we lost \$50 billion on paper but rebounded with a gain of \$120 billion over the next four years.

SERVING OUR MEMBERS

Despite the challenging economic environment, we continue to provide excellent customer service to our members and employers. We currently administer defined benefit pensions for more than 1.6 million California public employees, retirees, and their families on behalf of 3,026 public employers. As of June 30, 2009, CalPERS provided retirement benefits for 1,134,397 active and inactive members and 492,513 retirees, beneficiaries and survivors. Our membership is divided roughly into thirds between State, local public agencies, and school members.

Our Customer Contact Center and eight regional offices statewide provide outstanding frontline customer service to our members. During the 2008-09 fiscal year, we processed more than 26,000 service retirement applications and 2,860 disability retirement applications.

We paid \$11.83 billion in retirement, death, and survivor benefits, an increase of \$947 million over the prior year. One-hundred percent of new retirees received their first benefit check within 30 days of retirement. We also processed 24,250 requests for refunds of contributions that were paid to members within 30 days.

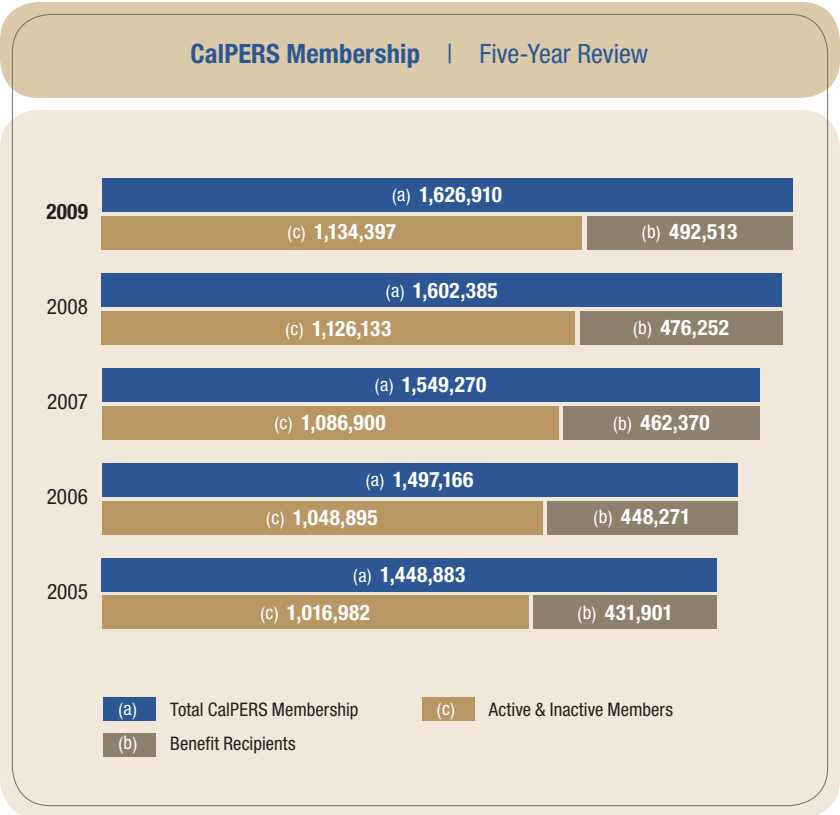
In addition, we handled 681,000 customer calls and 46,000 member-related correspondences during the year. We are pleased that we were able to complete 90 percent of the calls at the initial point of contact and 99 percent within 10 business days of the original request.

Over the past year, our Customer Contact Center made adjustments to its customer callback management system,

which allows callers on hold to hang up, and without losing their place in line, receive a callback when it's their turn. Average caller hold times were reduced from an average of 9 minutes to approximately 2 minutes. The adjustments reduced call abandonment rates during the year from 21 percent to 6 percent.

The CalPERS Education Center, our online member education and training system, offers both online classes and traditional instructor-led classes on topics such as understanding CalPERS benefits, planning for a financially secure retirement, and financial planning for retirees. Over the past year, we processed nearly 59,000 class enrollments and provided education and training to more than 40,000 members, with 4,800 members taking classes online.

We also helped our members plan for retirement by conducting a series of retirement planning fairs – 23 fairs in 20 cities throughout the State. More than 7,500 CalPERS members attended a fair in 2008, a 27 percent increase



over the prior year. Each fair had more than a dozen information tables staffed by CalPERS and outside experts along with several workshops scheduled throughout the day.

We launched the National Guard Member program, which allows members of the California National Guard to voluntarily join CalPERS and receive retirement benefits similar to State miscellaneous members. We developed a member benefit booklet and online class to educate members of the California National Guard about the benefits of optional CalPERS membership.

State law requires first-time State miscellaneous and industrial employees hired on or after August 11, 2004, to be enrolled in the State Alternate Retirement Program (ARP) during the first two years of employment without receiving CalPERS service credit. Over the past year, we implemented an election process that allows ARP members to receive CalPERS service credit for their first two years of employment. During the year, 1,771 ARP members took advantage of the opportunity to receive CalPERS service credit for their first two years of State employment.

During the past year we mailed 955,515 annual member statements and uploaded an additional 107,522 statements available only online. Members can view and print their annual statements from the myCalPERS member Web site, including past years' statements, and opt out of receiving their statements in the mail.

The Judges' Retirement System (JRS) launched a judges' retirement planning calculator on our Web site; implemented Senate Bill 608 which provided a new pre-retirement death benefit to its members; and participated in four customer outreach events to provide general and specific retirement information to judges in attendance.

SERVING OUR EMPLOYERS

With the economy and financial markets under stress, CalPERS began proactively reaching out to employers in the fall of 2008 to educate and prepare them for the likelihood of declining investment returns for the year and what it would mean for future employer retirement costs.

The Board approved special actuarial treatment for the fiscal year 2008-09 investment losses in order to provide employers with some rate relief. We recognized that the deep economic recession and related investment losses was an anomaly — a once-in-a-lifetime event that could be treated differently from normal years.

To help public agencies cope with the fiscal squeeze, we modified our regular rate setting process to phase in the one year of asset losses over three years, and amortized those three years over a fixed 30-year period instead of our normal rolling 30-year amortization. If the economy and our investment returns improve as expected over the next few years, employer rates will be moderated.

As of June 30, 2009, we administered retirement plans for 3,026 State, local government, and public agencies and school employers. During the year, our Employer Contact Center, which provides frontline customer service to employers, provided service to more than 129,000 callers, completing 87 percent of the calls at the initial point of contact and generating a 94 percent customer satisfaction rating.

CalPERS Participating Public Agencies | Five-Year Review



¹ The increase in participating public agencies for June 30, 2009 reflects a correction made to last year's calculations. The previous calculations understated the number of participating public agencies by approximately 400.

Over the past year, the CalPERS Education Center added a series of online training classes for the Automated Communications Exchange System (ACES) used by employers to report membership and payroll data to CalPERS. All ACES and employer training is now online, providing employers with more convenient and lower cost training opportunities. Traditional instructor-led classes are also available.

More than 700 employer representatives attended our ninth annual Employer Educational Forum at Indian Wells, California. The theme of the three-day event was “Preparing for Tomorrow.” Participants chose from more than two dozen workshops on topics ranging from nuts-and-bolts administration of CalPERS programs, optional benefit programs, and emerging issues such as new laws and proposed legislation that impact public employers. As always, the event gave employer representatives an opportunity to exchange ideas and network with their colleagues, CalPERS staff, and Board Members.

With a major upgrade of our information technology systems — called my|CalPERS — we ramped up our employer outreach activities during the year to make sure employers and our external business partners receive the training they need to use the new system when it goes online.

During the year, our Public Employer Readiness Team (PERT) conducted 60 Web training conferences that were attended by 1,350 employer groups and thousands of staff. Our engagement with employers will intensify with specific technical training on various processes as we get closer to the my|CalPERS implementation date.

In other areas of employer services, we processed more than 293,000 membership transactions, conducted more than 4,900 compensation reviews, completed 96 public agency contract amendments, completed 144,000 employer inquiries, and processed 47,000 payroll reports. We also provided more than 1,900 employers with online access to their Annual Employer Statements. During the year, we conducted training workshops for more than 1,280 employer representatives at 91 State, school district, and public agency offices. We conducted 21 workshops for

employers by special request and 14 workshops for new CalPERS employers.

In this challenging economic environment, we are working harder than ever on more efficient and sustainable ways of providing employers with affordable employee benefit options.

PREFUNDING RETIREE HEALTH BENEFITS

One of the emerging challenges for public employers is the funding of health benefits and other post-employment benefits (OPEB) for retirees.

Powerful influences have focused attention on how to pay for retiree health care benefits: doubt about the solvency of the Medicare program; an expanding population of elderly people who are living longer; greater and costly ability to treat acute and chronic medical conditions of the elderly; and the rapidly growing cost of promised retiree health care.

Nationally, new accounting standards created by the Governmental Accounting Standards Board (GASB) require public employers to measure and to report the future cost of Other Post-Employment Benefits (OPEB — mainly retiree health care benefits) promised to their employees. These new OPEB accounting standards are comparable to the pension benefit accounting standards with which the CalPERS pension plan has helped public employers statewide to comply for many years. But, in the area of OPEB reporting, a cost-effective statewide program to help public employers did not exist.

Now in its third year of operation, the California Employers’ Retiree Benefit Trust Fund (CERBTf), managed by CalPERS, provides California public employers with a low-cost, professionally managed OPEB prefunding plan. Prefunding significantly reduces an employer’s long-term OPEB liabilities and lowers future OPEB costs.

Under the plan participating employers make regular periodic contributions to the CERBTf. The contributions are invested by CalPERS so that they grow over time and funds are available to employers in the future to pay for

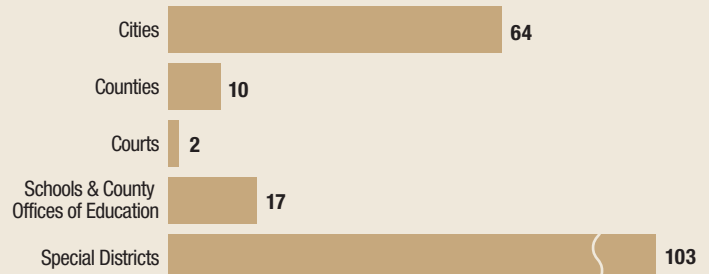
OPEB costs. Performance of the CERBTf is expected to mirror the CalPERS pension fund.

Over the past fiscal year, 124 new agencies joined the CERBTf, bringing the total participants in the voluntary program to 196 employers. During the year, we conducted a total of 60 workshops and online Web seminars for employers, providing education about OPEB accounting rules and the benefits of prefunding through the CERBTf. Fund assets exceeded \$848 million as of June 30, 2009.

CERBTf staff has worked vigorously to expand CalPERS ability to support employers in the area of OPEB financial reporting and actuarial cost analysis. Through the CERBTf program, CalPERS has taken significant steps to assist public employers to meet this challenge.

The CERBTf program provides to participating employers the financial disclosure statements required under the GASB Standard 43, one of two new accounting standards (43 & 45).

CERBTf Participating Public Agencies | as of June 30, 2009



We provide the participant demographic data required for an OPEB actuarial valuation report to employers who contract with the CalPERS health plan.

Given the economic recession and the very challenging budgets that many public agencies had to work with over the past year, the impressive growth in the number of participants indicates that employers are recognizing the value of prefunding their OPEB costs even in these difficult economic times.

Health Benefits Program

1.3 million

members covered by health plans

As the second largest purchaser of public employee health benefits in the nation, we negotiated a 2.9 percent premium increase for 2010, the lowest premium increase in 14 years.

The importance of affordable, quality health care has been a CalPERS priority for nearly 50 years. The CalPERS Health Benefits Program remains strong. This year we spent over \$5.8 billion providing health care to our members and their families.

The 2010 health premium package approved by the CalPERS Board includes the lowest average increase in 14 years of 2.9 percent. This historically small increase demonstrates the resiliency of our Health Benefits Program. Just six years ago, escalating health care costs required an average increase in Basic Health Maintenance Organization (HMO) premiums of 25.9 percent. The dramatic

decline in premium hikes is due in large part to our aggressive efforts to contain costs and leverage our purchasing power to negotiate the best possible rates.

Health Benefits Program Highlights

1.3 million employees,
retirees & family members

60%
State members

40%
public
agency
& school
members

\$5.8 billion
paid in annual
health premiums

NATIONAL HEALTH CARE REFORM

The 2008-09 economic environment amplified the impact of ever rising health care costs on CalPERS as well as on our members and employers. Our decisions and actions in recent years have saved us more than \$600 million. This is a phenomenal achievement.

Our priorities for health care reform are based on our commitment to protecting the interests of our members and employers. National health care reform should mirror our priorities:

- Make health care affordable for all Americans
- Constrain costs, increase value, and improve quality and efficiency in the health care system
- Lower the costs of prescription drugs

Without reform at the federal level, our members and our country will continue to suffer the consequences of a broken health care system. Health care reform is also critical to our local contracting employers who are struggling with revenue cuts that affect their ability to deliver vital programs and services.

As the national debate about health care reform unfolds, we continue to advocate for proposals that are in the best interest of members and employers.

THE HEALTH CARE MARKET PICTURE

Health care costs continue to take a greater toll on family budgets. According to a July 2009 report by the Kaiser Family Foundation¹, between 2000 and 2008, the cumulative increase in health insurance premiums grew more than three times as fast as wage increases. During this period, the average annual family contribution for employer-sponsored coverage increased to \$3,354, consuming 7 percent of pre-tax income for a family earning \$50,000. According to the same report, the cost-sharing requirements of health policies are also increasing. In 2008, half of employees enrolled in Preferred Provider Organization (PPO) were in plans with a family deductible of \$1,000 or more. Between 1999 and 2008, employer-sponsored insurance premiums had a cumulative increase of 119 percent, while wages increased only 34 percent.

Total Health Program Membership | Five-Year Review

2009	1,286,349
2008	1,267,122
2007	1,240,976
2006	1,205,945
2005	1,190,212

As in previous years, the reasons for health care cost increases revolve around several factors: rising hospital and physician costs; the added costs of serving an aging population; the growing incidence of costly chronic health conditions such as heart disease and diabetes; and more advanced medical technologies. Inconsistency in pricing, quality, record-keeping, and reporting practices by physicians, hospitals, and other providers also continue to be significant factors.

Despite continually rising health care costs across the nation, the CalPERS Board approved a 2010 health benefits rate package that increases overall premiums by an average of 2.9 percent — the lowest average rate increase in 14 years. We held Basic HMO increases to an average of 3.4 percent, and we negotiated a Basic PPO increase that averages 3.3 percent. Rates for association plans that serve the California Highway Patrol officers, corrections officers, and public safety officers will increase an average of 1 percent. Premiums for members enrolled in Medicare plans will increase an average of 1.1 percent.

A number of factors contributed to our ability to negotiate these historically low premium increases. CalPERS health staff successfully leveraged our purchasing power to negotiate the best possible rates, and proactive

¹ Source: Kaiser Family Foundation report: <http://www.kff.org/healthreform/upload/7951.pdf>. Statistics above are from pages 1, 2, and 6, respectively.)

management by health plans and providers helped contain costs. Premium increases were also mitigated as a result of recent strategic decisions by the CalPERS Board, including removing high-cost hospitals; emphasizing health and disease management programs; offering lower cost, high-performance health plans; and launching innovative cost-saving pilot programs with our health care partners. Reduced use of medical services and increased use of generic medications by members also contributed to cost savings that are reflected in the favorable rate outcome for 2010.

EXPANDING MEMBER AND EMPLOYER ENGAGEMENT

In an ongoing effort to help contain costs, we launched the *Be Well, and Well Informed* campaign. This campaign educates members about how their health care decisions affect both their own well-being and overall health care costs. Each month, we select and analyze a health care trend, such as how our members use their pharmacy benefits, manage their chronic conditions, or use free preventive care services. We share trend data with members and identify actions they can take to maintain or improve their health, as well as health care decisions they can make to help keep costs down for all CalPERS members.

In developing the 2010 Health Program Open Enrollment material, we continued to fine-tune the way we inform members about their options. Based on

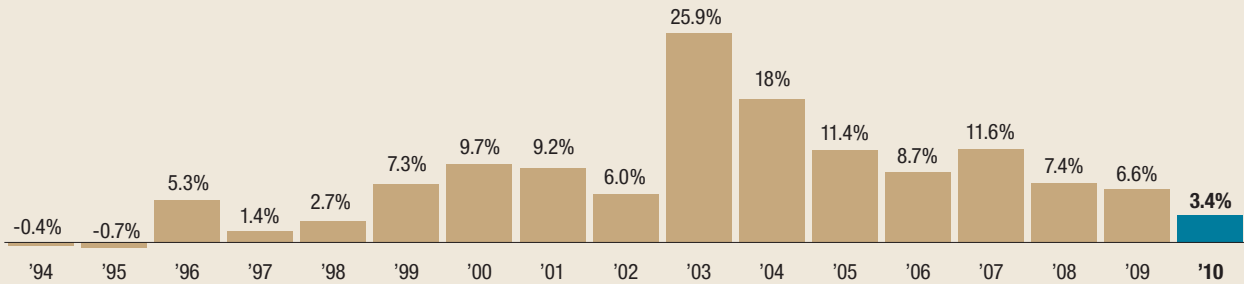
feedback from members and employers, we revised the 2009 materials to provide members with several easy-to-understand guides to selecting the best plan for their families. To reduce costs, we did not print the Open Enrollment booklet — *2010 Your Health Care, Your Choices*, rather, the booklet is available for members to view or download via our Web site.

On the employer side, we accelerated recruitment and retention strategies to attract new contracting agencies and retain existing agencies. During 2008, we enrolled 14 new agencies, including the third largest school district in program history. As a result of these activities, our public agency “total covered lives” increased 3 percent to 502,000.

At the end of the fiscal year, we distributed \$15 million in Medicare Retiree Drug Subsidy (RDS) funds to more than 800 eligible contracting local public agencies. This is the second subsidy disbursement we have issued to employers since the Medicare Part D Program was established in January 2006. Over the past two years, we distributed a total of \$29.1 million in RDS funds. Contracting agencies receive RDS funds based on a formula that considers each agency’s contribution toward Medicare health care premiums in 2007.

The reimbursements have been a welcome relief for cities and counties that are struggling to maintain health

CalPERS Basic HMO Premium Averages
Percent Decrease or Increase Based on a Weighted Average of All CalPERS HMOs



care benefits for retirees and their beneficiaries. We hope this will help offset some of the costs they have incurred to provide high-quality prescription drug coverage.

PARTNERING TO CONTAIN COSTS, IMPROVE VALUE

As large as CalPERS is, we alone cannot change the health care marketplace in California. However, we can leverage our size to get the best value for our health care dollars. One way we are doing this is through an open search for a new pharmacy benefits manager to support CalPERS self-funded PPO health plans. Bidders must focus on integrating evidence-based design with health improvement initiatives.

In mid-April, we hosted a forum sponsored by the National Coalition on Health Care. The non-partisan group is the nation's largest and most broadly representative alliance of organizations working for system-wide health care reform. The Coalition invited an extraordinary panel of experts to share their insights about how national reform could affect patients, health care providers, employers, employees, and communities in California. Topics addressed at the forum included escalating health care costs, the increasing numbers of people with no coverage, disparities in access, and unsafe care. The forum was attended by a wide range of leaders and stakeholders from many organizations and vantage points.

The following month, we participated in a panel discussion as part of the America's Agenda Healthcare Education Fund's Summit Conversation. The Summit featured a discussion of the major drivers of health care cost growth. Policy areas addressed included disease prevention, management of chronic diseases, health information technology, patient and provider incentives, and modernizing the American health care system.

During the year, we successfully sponsored legislation requiring health plans that contract with CalPERS to disclose cost, utilization, and actual claims payments to participating hospitals. This enhances our ability to understand the true cost of member health care while ensuring we receive the best possible value for the dollars we spend.

In 2010, Blue Shield of California will replace its Supplement to Medicare plans in Los Angeles, Orange, San Luis Obispo, and Ventura counties, and parts of Riverside, San Bernardino, Kern, Fresno, and Madera counties. Instead of the Blue Shield Supplement to Medicare plan, members in these areas have the choice of enrolling in the new Blue Shield 65 Plus Medicare Advantage plan or changing to another plan (e.g., Kaiser Permanente or one of the PPO plans) available in their area. Blue Shield of California is projecting a significant premium savings with this new plan.

USING INFORMATION TECHNOLOGY TO IMPROVE HEALTH OUTCOMES

The use of health information technology (IT) is vital to improving health outcomes and lowering health care costs. Information technology provides access to evidence-based clinical decision-support tools. It also allows better reporting of patient medical information and helps consumers make informed health decisions. Current national and statewide reform proposals include IT-related provisions that are similar to recent CalPERS initiatives.

In early 2009, we launched an electronic prescription (e-Prescribing) pilot program for our non-Kaiser Permanente members. The program is co-sponsored by health plan partners Anthem Blue Cross, Blue Shield of California, and Medco Health Solutions. E-Prescribing allows physicians to use automated data entry systems (such as computers or handheld devices) to generate a prescription. The physician either prints and faxes or electronically transmits the prescription to the patient's pharmacy. The e-Prescribing program allows our non-Kaiser members to have the same advantages as our members enrolled in a Kaiser Permanente health plan.

The participating health plans are working with selected physician groups to identify and reduce barriers to e-Prescribing, quantify results of improved use of e-Prescribing, and share information from the pilot to support e-Prescribing by all California prescribers.

Medco is managing the project and providing technical support.

Evidence shows that e-Prescribing improves safety by ensuring that patients receive the right medications. It also reduces costs for the physician, the health plan, and the patient. This pilot project will enable CalPERS to develop strategies and best practices that we can expand to our larger physician population.

PROGRAM ENHANCEMENTS

In April 2009, the CalPERS Board of Administration approved a pilot program designed to improve health care quality, enhance service, and reduce costs. CalPERS collaborated with Blue Shield of California, Catholic Healthcare West (CHW), and Hills Physicians Medical Group to implement the pilot program starting January 2010. It will create an integrated health care model that aligns incentives among the health plan, hospital system, and medical groups. These partners have also agreed to be at financial risk should the pilot's cost reduction goals fall short of expectations. The pilot program will be available to CalPERS members in the greater Sacramento region (Sacramento, Placer, and El Dorado counties).

We are pleased to offer this pilot program, which demonstrates that our health partners are moving toward pay-for-performance and evidence-based care, in which doctors and hospitals are paid for improved health outcomes rather than for each service. Blue Shield of California anticipates that the 12-month pilot will keep the 2010 total cost of health care trend flat (or negative), compared to the 2009 projected cost of health care in the targeted three county region. Upon conclusion of the pilot, CalPERS, Blue Shield of California, CHW, and Hill Physicians will review the results and make a recommendation on expanding the program to additional counties.

The pilot program is in line with our strategic vision to be a leader in providing best-in-class sustainable health benefit options for members and employers. If the program is successful, we hope to positively impact health outcomes and costs for more members in the future.

SELF-FUNDED HEALTH PLANS

Although the average 2010 premium increase is the lowest in 14 years, we recognize that any increase can be a burden during these difficult economic times. To provide relief, the Board approved using \$265 million in excess reserves from our self-funded PPO health plans to offset two months of premiums and contributions paid by PPO members and employers. The excess reserves resulted from PPO members increasing their use of generic drugs and having fewer hospital admissions — both attributed to an ongoing member education campaign. A bill authorizing the premium offset was passed by the Legislature and signed by Governor Schwarzenegger.

The premium offset resulted in an average savings of \$134 over two months for 324,000 Basic PPO members, a total of \$43 million. Retirees also benefited, with savings varying depending on employer benefit level. The State saved \$131 million in premium costs, while 1,140 contracting public agency employers saved \$91 million.

LONG-TERM CARE PROGRAM

CalPERS continued to manage the not-for-profit, self-funded Long-Term Care Program. The program provides help with basic activities of daily living in the event of an accident, chronic illness, disability, or frailty of old age.

At the close of the fiscal year, the CalPERS Board began to evaluate potential asset shortfalls in the Program which might require an increase in Long-Term Care Program premiums. These shortfalls, driven by early program underwriting guidelines and recent unanticipated changes throughout the long-term care industry, could challenge the stability of the program over time. Potential program increases were being evaluated to stabilize the program, maintaining retirement security for its 165,023 policyholders who are active and retired state and public agency employees or their spouses, parents, parents-in-laws and adult siblings. (Editor's note: Premium increases were approved by CalPERS ranging from 15 to 22 percent effective July 1, 2010.)

Investment & Corporate Governance Programs

7.75%

average 20-year rate of return

We have had 20 years of positive investment returns in the past two decades, 13 of which had annual gains of 10 percent or more. We are a long-term investor with a diverse investment portfolio that will ensure benefits well into the future.

As a long-term investor, CalPERS focuses on years and decades of returns and growth rather than on the daily, monthly, and quarterly rise and fall of the Dow.

Such time frame distinctions are crucial in assessing CalPERS investment performance figures for the fiscal year ending June 30, 2009.

Short term, we recorded our biggest investment decline since opening our doors in January 1932. It was only the fourth year of negative returns in 77 years. We had plenty of company as investors worldwide found no safe haven from the market decline.

Long term, over the previous 20 years ending June 30, 2009, we achieved an annualized investment gain of 7.75 percent.

At the close of the fiscal year, we anticipated an eventual return to historical market cycles that were knocked awry by a subprime mortgage crisis, a credit and liquidity crisis and finally, the global market collapse. As worldwide equity values plunged by 39 percent, the recession left no asset class and no sector unscathed.

The market value of total CalPERS assets fell 24.8 percent to finish the fiscal year with \$178.9 billion. There were two slight gains: cash returns rose 1.4 percent and global fixed income 0.4 percent.

Four of our five major asset classes reported declines: global equity, negative 28.6 percent; real estate, negative 47.9 percent; Inflation Linked Asset Class (ILAC), negative 22.7 percent; and private equity, negative 25.9 percent.

But as the year ended, CalPERS total assets rebounded \$20 billion after dipping to a recessionary low of \$160 billion in March 2009.

The rising market tide lifted all boats in the spring of 2009, and CalPERS added value to its portfolio with aggressive, disciplined strategies to minimize portfolio declines and position the Fund for eventual recovery.

The Board of Administration made an unusual mid-course adjustment in capital allocations, giving investment officers more flexibility to respond to market developments pending a full-blown asset allocation review in 2010.

We also began to realign our relationships with hedge fund and private equity partners in hopes of securing more favorable fees and more mutually beneficial long-term relationships.

We launched an initiative to develop new, innovative methods to restrain risk, and capitalized on market dislocations to make promising investments by following the “buy low, sell high” strategy that paid off so well after previous market downturns. We also stepped up our leadership efforts with market reform and corporate governance initiatives aimed at protecting investors and stabilizing the economy.

Despite one-year devaluations, there was a silver lining. Many declining assets would regain value if we could hold them. We had enough cash, contributions and investment income to pay benefits without having to sell assets. We were big enough to ride out the recession and come out stronger. And our smoothing strategy would soften the impact of investment declines on employer contribution rates.

ASSET ALLOCATION / RISK MANAGEMENT

One significant portfolio adjustment made by the CalPERS Board involved raising target exposures to private equity and cash. The intent was to provide higher liquidity and moderate risk in the cash-constrained markets and the flexibility to respond to transaction opportunities.

The Board’s three-year asset allocation plan, beginning January 1, 2009, initially was designed to stay in place through 2010 (See “*Asset Allocation*” table on page 26). However, market developments had changed dramatically since the plan was adopted in December 2008. Responding to those new market factors, the Board raised the private equity target share of the total Fund market value from 10 percent to 14 percent for the Alternative Investment Management (AIM) program. It raised the global fixed income target from 19 percent to 20 percent. It reduced global equity (mostly public stocks) from 56 percent to 49 percent and raised its cash target from 0 percent to 2 percent. Target allocations for real estate and inflation-linked assets were unchanged, at 10 percent and 5 percent, respectively.

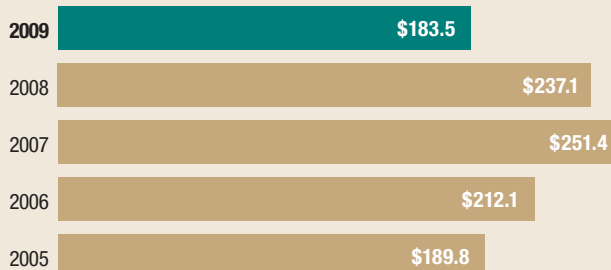
The Board narrowed discretionary investment ranges around those targets for all asset classes primarily because of declining market volatility and improving liquidity. It set ranges of +/- 5 percent around targets for global equity,

Performance Benchmarks

ASSET CLASS	BENCHMARK
Global Fixed Income	Lehman Long Liability Index Lehman International Fixed Income
Equity	
Domestic	PERS Wilshire 2500 Tobacco-Free Index
International	FTSE All World ex U.S. Index
Alternative Investments	Custom Young Fund Policy Index
Real Estate	NCREIF Property Index

Growth of Investment Portfolio at Market Value

Five-Year Review (Dollars in Billions)



AIM, fixed income and real estate; 2 percent to 5 percent for inflation-linked assets; and of 0 percent to 5 percent for cash. With the ranges, for example, CalPERS could have 9 percent to 19 percent of its total market value in the private equity market with a target of 14 percent.

A more full-blown asset allocation and liability analysis is tentatively scheduled for the fall of 2010 to take effect in 2011 through 2013. Until then, the revised mix of assets does not significantly change the expected return or volatility of returns compared with the previous asset allocation. It also does not significantly change the expected level of employer contributions or the volatility of those rates.

Asset Allocation (Dollars in Billions)

ASSET CLASS	MARKET VALUE	PERCENT OF INVESTMENTS	CURRENT TARGET ¹
CASH EQUIVALENTS	\$12.0	6.5%	0.0%
GLOBAL FIXED INCOME	\$51.6	28.1%	19.0%
EQUITY			
Domestic	\$38.2	20.8%	28.0%
International	42.0	22.9	28.0
Alternative Investments/ Private Equity	21.8	11.9	10.0
TOTAL EQUITY	\$102.0	55.6%	66.0%
INFLATION LINKED (ILAC)	\$4.4	2.4%	5.0%
TOTAL REAL ESTATE	\$13.5	7.4%	10.0%
TOTAL FUND	\$183.5²	100.0%	100.0%

¹ Target allocation effective January 1, 2009.

² Differences between investment values above and the values on the Summary of Investments on page 83 of the CAFR are due to differences in reporting methods. The Summary of Investments includes Net Investment Receivables/Payables.

GLOBAL FIXED INCOME

The global fixed income portfolio recorded the highest return of any CalPERS asset class during the 2008-09 fiscal year, with gains of 0.4 percent for one year, 4.9 percent for three years and 6.3 percent for 10 years. International fixed income returned 1.7 percent and domestic fixed income 0.2 percent for the year.

During the year, we increased the pool of available high-yield and leveraged loan managers, transitioned currency overlay from international equity to apply across portfolios, and developed two new cross asset class investment strategies. We also sponsored the first annual CalPERS Investment Planning Forum to educate senior managers about strategic planning opportunities. We continued to evaluate investment opportunities offered by the federal Term Asset-Backed Securities (TALF) program on a case-by-case basis.

GLOBAL EQUITY

CalPERS global equity experienced a negative 28.6 percent devaluation during the fiscal year, reflecting the global stock market collapse. Returns were negative 7.6 percent for three years and negative 0.02 percent for 10 years. International equity declined by 32.4 percent for the year, while U.S. stocks were down 26 percent.

Internal equity trading staff worked with an outside advisor to consolidate our pool of broker traders. The new brokerage model was rolled out formally in January 2009, along with an initiative to consolidate trading within the

Global Public Markets (Dollars in Billions)

	DOMESTIC	INTERNATIONAL	TOTAL
Fixed Income	\$48.3	\$3.3	\$51.6
Equities	38.2	42.0	80.2
TOTAL GLOBAL PUBLIC MARKET	\$86.5	\$45.3	\$131.8

International Equity & Fixed Income Investments Country Diversification (Dollars in Millions)

<u>\$25 to \$50</u>	<u>\$50 to \$100</u>	<u>\$100 to \$300</u>	<u>\$300 to \$500</u>	<u>\$500 to \$1,000</u>	<u>More than \$1,000</u>
Argentina	Austria	Belgium	Denmark	Brazil	Australia
Chile	Egypt	China	India	Italy	Canada
Colombia	Ireland	Finland	Singapore	Korea	France
Cyprus	Malaysia	Greece	South Africa	Netherlands	Germany
Hungary	Portugal	Indonesia	Taiwan	Sweden	Hong Kong
Jersey, Channel Islands		Israel			Japan
Mauritius		Luxembourg			Spain
Neth. Antilles		Mexico			Switzerland
New Zealand		Norway			United Kingdom
Pakistan		Russia			
Papua New Guinea		Thailand			
Philippines		Turkey			
Sri Lanka					

Internal Equity Trading Team. The net effect of the model roll-out and consolidation of trading activity was a nearly two-thirds cut in the number of active broker relationships, concurrent with a quadrupling of the percentage of commissions going to “targeted” counterparties (those that are minority-, women-, and disabled veteran-owned). Staff also completed a transfer of the entire global opportunity set (including emerging markets and small capitalization) to internal management in an effort to successfully reduce trading commissions by 25 percent.

In the hedge fund component of global equity, we launched an effort to restructure relationships with external managers to achieve better alignment of interests, gain more control of assets, and enhance transparency. Instead of focusing on commingled accounts, we pursued customized vehicles, managed accounts and other methods to improve control of our assets in the Risk Managed Absolute Return Strategies (RMARS) program. We engaged managers about basing fees on long-term performance and obtaining more timely disclosure of information to better assess, measure, and manage the risks within the RMARS portfolio.

ALTERNATIVE INVESTMENT MANAGEMENT

As the fiscal year closed, CalPERS collaborated with other investor members of the Institutional Limited Partners Association (ILPA), a global trade association of 200 members collectively managing approximately \$1 trillion in private equity assets. The principles were intended to form limited and general partnership relationships to promote stronger alignment of interests, improve reporting and transparency, and enhance partnership governance.

During the 2008-09 fiscal year, the AIM program sold more than \$2 billion in private equity assets, representing the largest secondary market sale in the program’s history. Expanded investments in emerging managers and in diverse private equity managers brought the total of commitments to firms with majority-ownership by women or ethnic minorities to approximately \$3.4 billion.

With the Board-approved revised allocation target of 14 percent, the AIM program had greater flexibility to pursue new opportunities in the market, including a new \$200 million commitment to Khosla Ventures, a breakthrough fund in the world of clean technology, including materials development, lighting efficiency, and water

filtration and desalination systems. Looking ahead, private equity was expected to out-perform public stock benchmarks by at least 3 percent annually.

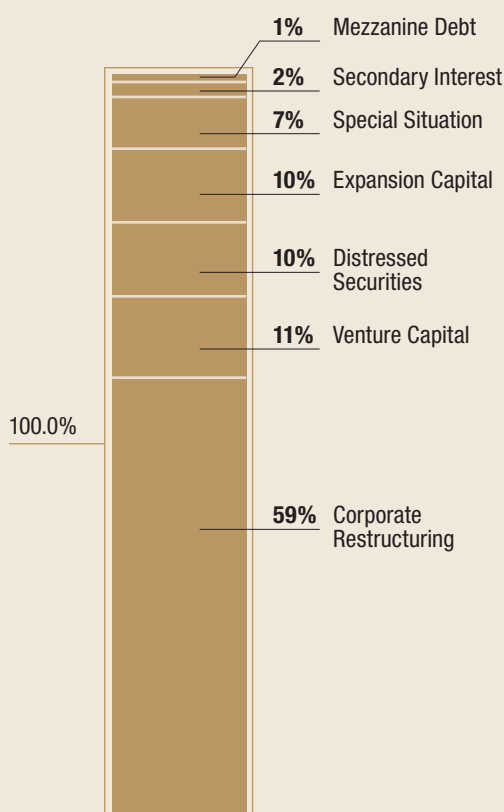
REAL ESTATE

Real estate was the first asset class to take the brunt of the 2007-08 market downturn as credit dried up and lenders scrambled to keep property investments afloat. During the fiscal year, CalPERS focused on positioning the real estate portfolio for eventual market recovery in still shaky housing, commercial real estate and credit markets. The ongoing shift to a more globally diversified portfolio was slowed but not stopped by the recession, although restructuring will take a few more years.

The Board tightened the parameters investment officers could deploy for capital under delegated authority. The Real Estate Unit completed the final design and testing of the Automated Real Estate Investment system, a database to help track and monitor the real estate portfolio.

We also took advantage of buying opportunities in the depressed property market by pursuing a \$463 million transaction for a portfolio of shopping centers in 17 states and the District of Columbia. The joint venture with First Washington Realty was a preview of potential additional purchases of cash-generating properties at attractive prices.

AIM Portfolio Diversification by Strategy



Real Estate Investments & Commitments

(Dollars in Millions)

CORE REAL ESTATE

Apartment	\$1,144.9
Industrial	1,749.3
Office	607.7
Retail	1,343.0
AFL-CIO Building Investment Trust	99.2
CIM Urban REIT	295.9

TOTAL CORE REAL ESTATE **\$5,240.2**

NON-CORE REAL ESTATE

Agricultural Land	\$156.9
California Urban Real Estate (CURE)	1,701.6
Housing	1,330.6
International	2,206.4
Opportunistic Funds	1,624.0
Real Estate Technology	181.9
Senior Housing	111.9
Public (REITs)	811.8

TOTAL NON-CORE REAL ESTATE **\$8,125.4**

TOTAL REAL ESTATE **\$13,365.5¹**

¹ Differences between investment values above and the values on the Summary of Investments on page 83 of the CAFR are due to differences in reporting methods.

INFLATION-LINKED ASSET CLASS

Investments in commodities, infrastructure, forestland and inflation-linked bonds proceeded at a measured pace during the fiscal year, but more slowly than had there been no recession. CalPERS policy allocated up to 3 percent each of total market assets to infrastructure and commodities through 2010 with the returns goal a few percentage points above inflation.

As the fiscal year closed, investment policies for the asset class were in place while the Investment Office enhanced staffing and laid the groundwork for further commitments.

DEFINED CONTRIBUTIONS: SUPPLEMENTAL INCOME PLAN

By the spring of 2009, the Supplemental Income Plan offered 25 different investment options to participating public agencies — in addition to a brokerage account through which participants could invest in more than 4,000 mutual funds. SIP also added asset allocation funds to the investment lineup.

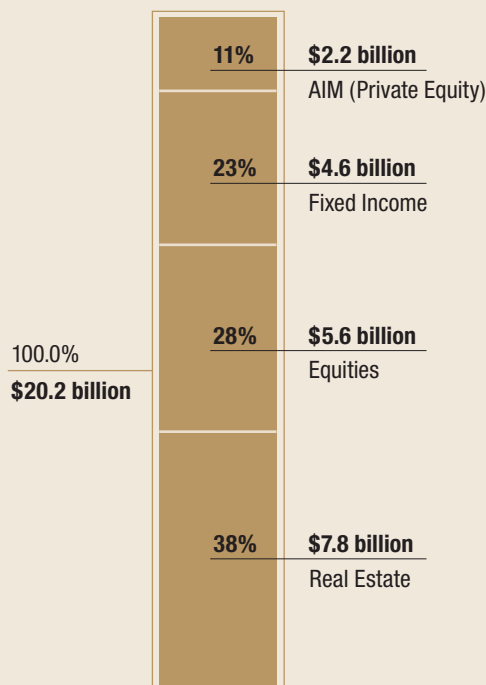
One of the SIP components, the CalPERS 457 Plan, had over 28,000 participants with assets approaching \$700 million under management. The Peace Officers and Firefighters Defined Contribution Plan had approximately 41,000 participants and assets over \$336 million. The Supplemental Contributions Plan, with 708 participants and \$17 million in assets, was an optional retirement savings plan for State members.

CALIFORNIA INVESTMENTS

As the fiscal year closed, California investments comprised 11 percent of total CalPERS market assets, compared with 8.5 percent a year earlier. By anyone's calculation, California taken alone would be among the world's 10 largest economies, with some 37 million in population. We had more than \$20 billion invested and committed in California across all our asset classes.

Of that, the AIM program had more than \$2 billion invested in California — more than 10 percent of our private equity portfolio. A key component was the

California Investments & Commitments¹



¹ Figures presented differ from the California Investments reported in the 2009 Comprehensive Annual Financial Report due to the inclusion of commitment amounts to CalPERS California investments. Commitment amounts represent funds earmarked for particular investment strategies that have not yet been deployed.

California Initiative, which we launched in 2001 after an exhaustive economic study. The managers we've selected understand the interior of California and the underserved urban and rural markets, areas that had relatively high unemployment and low capitalization.

These markets also showed promise of better things for far-sighted investors with the courage and resources to turn challenges into opportunities. Rural areas offered inexpensively priced land and office space, available workers, lower living costs, government incentives and

potential for development of technology and infrastructure.

Urban areas had target companies that often were strategically near centrally located businesses and transportation hubs. They also could tap into large and diverse labor pools and gain favorable access to real estate, local consumer demand and government incentives.

The program's latest annual report identified 152 companies employing more than 87,000 workers to bolster local economies known for their historic low capitalization and high unemployment. About half of these employees live in areas predominantly comprised of low- and moderate-income census tracts.

These added jobs and their impact on local economies were the ancillary benefits of doing good while we and our California Initiative partners pursued our long-term goal of achieving superior returns on investment. Many of these capital commitments are still relatively young. But we are confident they will bear fruit as the California Initiative program matures in the coming years.

INVESTMENT DIVERSITY EFFORTS

We launched new diversity investment initiatives during the 2008-09 fiscal year, bolstered by research showing that diversification of financial managers pays off in higher earnings, in the same way as diversification of asset classes.

The Board adopted new diversity guidelines for the CalPERS Principles of Accountable Corporate Governance to encourage companies to take into account "historically under-represented groups on the board, including women and minorities." We also raised the corporate board diversity issue with candidates for the 2009 Focus List of under-performing companies and encouraged proxy advisors to adopt a principles-based approach on the issue. These actions were bolstered by a CalPERS-commissioned study that found companies that had more diverse board profiles out-performed peers that did not in terms of share value gains, sales and other revenue.

CalPERS sponsored the well-attended *Women in Investments Conference* at the Sacramento Convention

Center. Former Secretary of State Madeleine Albright was the keynote speaker. We also began to lay the ground work for educational investment workshops with California's Black, Latino, and Asian Pacific Islander legislative caucuses.

ENVIRONMENTAL INVESTMENT INITIATIVES

We continued to expand environmental investment initiatives in several venues: by committing more than \$1 billion to fund clean energy and technology ventures; participating in key environmental conferences; and working with the United Nations, the U.S. Securities and Exchange Commission (SEC) and the U.S. Senate to develop policies and regulations for improved transparency and disclosure of environmental risks.

A survey of core real estate partners found that, under the CalPERS Energy Efficiency Plan, they were on target to reduce energy use by 20 percent by 2009. Partners adopted such conservation measures as the installation of low-flow or sensor-operated fixtures, recycling programs, and mitigating and treating storm water runoff. In August 2008, the CalPERS Board approved a policy encouraging "the prudent use of sustainable development methods and operational practices" for investments in new infrastructure projects such as transportation, ports, energy, water, and communications.

CORPORATE GOVERNANCE

The financial crisis of 2007-08 opened a door of opportunity for corporate governance advances to better protect investors. Media reports of widespread inattentiveness by corporate boards, egregious executive compensation for failing companies, and regulatory failures underscored the need for change.

We endorsed legislation for a "shareholder bill of rights" and a proposed rule change by the SEC that would allow shareowners to place board candidates on corporate proxy ballots. We also backed "say on pay" legislation that for shareowner advisory votes on compensation packages and identified four under-performing companies on our 2009 Focus List.

We joined other leading U.S. pension funds in support of a new set of principles aimed at reforming national and global financial market regulation. Key elements included greater disclosure and transparency, true regulatory independence, an increased and more effective shareholder voice in capital markets, and identification by regulators of issues that give rise to overall market risk that threaten global markets. CalPERS also called for more disclosure of security trading and credit rating practices, re-establishing the SEC as the protector of investors and worthy of the resources to achieve that mission, and the need to preserve institutional investors' freedom to invest in a full range of market opportunities.

STRENGTHENING DISCLOSURE, TRANSPARENCY, AND ACCOUNTABILITY

To stand still in the financial markets is to lose ground. Smart investors try to learn from the ups and downs of the past and apply those lessons to the road ahead.

CalPERS Board President Rob Feckner directed staff to pursue legislation that would require placement agents to be subject to the reporting and ethics rules governing lobbyists under the California Political Reform Act. The California Legislature also pursued a law on restrictions involving placement agents that was modeled after CalPERS own internal policy requiring managers to disclose fees and other information about

2009 Corporate Governance Focus List

Eli Lilly and Company

Hill-Rom Holdings, Inc.

Hospitality Properties Trust

IMS Health, Inc.

placement agents and to register as broker-dealers with federal regulators.

Officers of our hedge fund and private equity programs will continue efforts to improve alignment, accountability, and reporting of investments by outside partners.

Federal proposals to improve regulator reforms and corporate governance practices also awaited action in Washington, D.C., at times requiring CalPERS representatives to address regulators and legislators.

Our Fund is well-positioned to take advantage of investment opportunities, particularly in the deal-driven private equity and real estate asset classes, as the financial markets approach what investors hope will be eventual recovery.

Long term, CalPERS will continue to pursue the diversified asset allocation strategy that has served us well to deliver risk-adjusted investment returns.

Strengthening Enterprise-wide Operations

Our new my|CalPERS system will provide advanced self-service capabilities and make it easier for our members and employers to conduct business –

online, 24/7.

capabilities. All data will be housed in a single repository, and both members and employers will have seamless, 24/7 access to information. When fully operational, my|CalPERS will reduce processing time for enrollments and other requests. Many of the administrative functions currently performed by staff for members and employers

will become self-service and CalPERS will be able to offer increased analytical and planning capabilities.

While development and preparation for my|CalPERS is an enormous undertaking, in the long-run, it will strengthen our enterprise-wide operations and enable us to provide exceptional service to members and employers for decades to come. Employers will enjoy a higher level of customer service and expanded self-service options. For CalPERS staff, the new system will streamline work processes and facilitate access to comprehensive member and employer data.

Development and implementation of the new system is handled collaboratively via three project teams: the Pension System Resumption (PSR) project, who, with our contractor Accenture, is responsible for system design, architecture and data conversion; the Enterprise Transition Management (ETM) project, responsible for

One of the most vital and far-reaching efforts we are employing to improve the way we conduct business is the creation of an integrated technology Web-based platform — my|CalPERS — which will replace our aging stand-alone “legacy” mainframe-based information systems.

TRANSFORMING OUR ORGANIZATION — THE NEW my|CalPERS

Members have been using my|CalPERS since June 2007, and they have enjoyed the convenience of being able to view all their health and retirement information in one place via the internet.

As development of the new my|CalPERS system continues, its functionality will extend to employers, business partners, and CalPERS staff. The new system consolidates 49 separate systems into one web-based system that will provide members increased online

Capabilities and Benefits of the myCalPERS Currently Under Development

MEMBER CAPABILITIES

- > Submit service credit applications
- > Generate accurate benefit estimates
- > Apply for retirement
- > View health account summaries
- > Monitor health enrollment and deduction history
- > Enroll in a health plan (retirees)
- > Track status of requests
- > Update demographic information

EMPLOYER CAPABILITIES

- > View contract information and initiate contract processes
- > Resolve payroll discrepancies
- > Make electronic payments
- > Track status of requests
- > View billing invoices, reporting, and contribution histories
- > View employee and retiree health enrollment data
- > Make prior year payroll and contribution adjustments
- > Allow more agencies participating in the Supplemental Income Plan to use electronic reporting

BENEFITS TO CalPERS STAFF

- > Increases ability to close out most customer requests upon initial contact
- > Provides integrated full view of customer data
- > Reduces time needed for paper processing
- > Creates single source of financial and pension data
- > Allows customers self-service access to account information
- > Increases integrity of all member and employer data
- > Reduces time required to prepare for and conduct annual valuations
- > Minimizes time spent on routine tasks such as correcting payroll errors and tracking documents

the training and skills development of CalPERS staff for the new environment; and the Public Employer Readiness Team (PERT), tasked with helping employers and other external partners transition to the new system. Collectively, PSR, ETM and PERT comprise the myCalPERS Readiness Team, a collaborative body tasked with helping staff, employers and members prepare for the new system.

During the 2008-09 fiscal year, much of PSR's focus continued to be on capturing the future business design (or business function) and then constructing and testing the new system to ensure it meets the business requirements. Additionally, the team worked to correct data discrepancies in the legacy systems to ensure greater financial and data integrity and began to prepare staff for the new business culture the system will create.

SENIOR LEADER WORKING GROUP ON DIVERSITY

Fostering a diverse work environment is a key component of our strategic plan. Our commitment to diversity began eight years ago when our Board adopted a diversity policy

to guide our culture. The policy recognizes that a positive work environment is cultivated through diversity awareness. It promotes a climate to ensure that all team members treat each other with dignity and respect. The CalPERS Diversity Outreach Program (CDOP) supports our commitment to workforce diversity and promotes our internal and external diversity outreach and awareness programs.

This year, we established a Senior Leader Working Group on Diversity to help advance our commitment to diversity. The working group meets quarterly to discuss the status of our diversity initiatives, evaluate new programs, and help communicate those activities across the organization.

To assist all CalPERS staff in understanding the importance of creating a positive work environment where differences are recognized and valued, CDOP produced a new diversity handbook and launched an internal intranet site to further employee awareness about diversity issues and activities.

ENTERPRISE WORKLOAD MANAGEMENT / MANAGERIAL WORKLOAD TASKFORCE

Two years ago, an employee survey revealed that workload was a primary concern. To address those concerns, early in the fiscal year we established a Managing Workload Task Force. The task force found that while our annual business planning process successfully identifies annual priorities for our organization, new initiatives and assignments that come up during the year bypass that planning process and create workload challenges.

The task force developed a governance process to better address new workload and develop solutions for determining how to complete the work. It also allows for the delay of a new project or initiative until the resources are available to take it on. The new governance process will be managed through an Enterprise Workload Management Committee made up of Division Chiefs. They will analyze new workload, measure the impact on the organization, discuss solutions, and make recommendations to Executive staff. We expect this process to strengthen our ability to make efficient decisions and align our work.

MEMBER SATISFACTION

In November 2008, we expanded a customer satisfaction program to randomly survey members who contacted us by phone, correspondence, or by visiting one of our regional offices. Members were sent a survey card and encouraged to provide anonymous and candid feedback to help us evaluate our staff knowledge and professionalism as well as the timely and efficient processing of their request. We are pleased that members gave high ratings to CalPERS services and products. Survey respondents

rated their overall satisfaction with the retirement estimate information CalPERS provides as 8.2 on a scale of 1 to 10. Users of the online retirement planning calculator rated ease-of-use as “high” to “very high.” Eighty-five percent of respondents said that our customer service was “excellent” or “good.”

COMMITMENT TO THE ENVIRONMENT

We recognize the importance of being good stewards of our limited resources. Through our Environmental Sustainability Program, we have stepped up efforts to protect the environment and comply with statutory mandates. Those efforts include purchasing more environmentally friendly products as well as products containing post-consumer recycled content; decreasing waste disposal by increasing recycling; and employing energy and water conservation practices. Over the past year, we have increased our waste diversion rate from 11 percent to 68 percent, well above the mandated level. We have also initiated an employee education campaign to raise environmental awareness so staff can better support our “green” activities.

During the year, we also initiated several efforts to reduce energy consumption and operating costs at our data center. This included replacing aging hardware with more energy efficient equipment and using virtualization software and wireless devices to monitor heating and cooling in the computer room. Working with the local utility company, we created an energy usage baseline. We began construction to change equipment configurations to better manage airflow, increase computer room operating temperatures, and reduce energy costs by roughly \$50,000 annually.

State & Federal Legislative Update

We advocate in the best interests of our members

at State and national levels
with key stakeholders, legislative
positions, and outreach.

The Office of Governmental Affairs (GOVA) advocates on behalf of CalPERS members and stakeholders to ensure the integrity of the CalPERS trust and advance CalPERS mission in State and federal policy areas.

This past fiscal year, the CalPERS Board of Administration approved legislative positions and proposals that best served the interest of our members and employers. Using its Legislative Policy Standards as a guide in formulating positions, the Board supported or sponsored legislation on a variety of fronts.

STATE LEGISLATIVE UPDATE

Following is a brief summary of some of the CalPERS-related State legislation enacted during the legislative session. New laws became effective January 1, 2010 unless otherwise noted.

Assembly Bill (AB) 65, Chapter 265 (Hayashi) Vision Care: Local, School & University Members

Created the Retired Public Employees' Vision Care Program to provide voluntary, member-funded vision care benefits to CalPERS members and their dependents, when the member retires from a local public agency, school district, or the University of California. The new program is to be administered by the CalPERS Board, and the law states that the program won't take effect until funds have been made available to cover startup costs. The Legislature did not identify or appropriate funds to cover these costs. Once the program is established, enrollee monthly premiums will provide sustaining revenues.

AB 86, Chapter 79 (Nava) Retirement: Airport Police Officers

Provides local contracting agencies the option to reclassify airport law enforcement officers from miscellaneous employees to safety employees. Contracting agencies would not be required to make this change, rather it only

takes effect if a contracting agency amends its contract to include this provision. The bill also excludes reclassified officers from participation in Social Security.

AB 399, Chapter 240 (Brownley) Public Employee Benefits

Requires that a member who is permanently separated from all service covered by CalPERS, is not in reciprocal service, and has reached 70 years of age, be provided with an election to withdraw contributions, or if vested, an election to either apply for service retirement or withdraw contributions. The bill further states that failure to apply for service retirement or to make an election to withdraw contributions within 90 days is to be deemed an election to withdraw contributions. It defines mandatory furloughs, and requires that the calculation of a retirement allowance for a state employee subject to mandatory furloughs be based on what the employee would have received had furloughs not been in place.

AB 468, Chapter 320 (Hayashi) Public Employees' Medical and Hospital Care Act (PEMHCA) Employer Contributions

Establishes a vesting schedule for health benefits for employees of Alameda County Transportation Initiative Authority (ACTIA). An employee must work five years with ACTIA to vest and receive 50 percent of the employer contribution, and reaches a 100 percent of the employer contribution at 15 years of service.

AB 637, Chapter 118 (Hill) CalPERS Contracting Agencies

Allows the Board to require all contracting agencies to submit retirement contributions and health premium payments through an electronic funds transfer method. A contracting agency that is unable to comply with this requirement can apply to the Board for a waiver. The bill also authorizes the Board to charge interest on late and unpaid amounts due at the actuarial interest rate rather than a rate approximating the rate of return on investments.

AB 966, Chapter 130 (Committee on Public Employees, Retirement and Social Security) Public Employee Benefits

AB 966 is a CalPERS technical and minor policy bill. It makes any technical or non-substantive amendments to the laws administered by the CalPERS Board of Administration.

AB 1584, Chapter 301 (Hernandez) Placement Agent Disclosure and Conflict of Interest

Modeled after CalPERS policy on placement agents, this legislation helps to ensure that investment decisions by public retirement systems are consistent with sound investment policy and fiduciary responsibilities, and provides transparency and confidence in public pension funds' investment decision-making processes by requiring investment placement agent fee disclosure; requires disclosure of campaign contributions and gifts by placement agents to retirement board members; prohibits retirement board members from selling investments to other public retirement systems; and lengthens post-employment restrictions on influencing retirement board actions for former system executives and board members.

ABX4 12, Chapter 12 (Evans) State Government

Authorizes CalPERS to transfer excess reserves between self-funded health benefit plans when setting premiums during the 2009-10 fiscal year. This change enables CalPERS to implement the Board's recent decision to use excess reserves to offset employer and subscriber Preferred Provider Organization (PPO) premium payments for two months. This bill also limits eligibility to the Rural Health Care Equity Program to only those employees in Bargaining Unit 5. The Program will be completed and eliminated on July 3, 2010.

Senate Bill (SB) 519, Chapter 188 (Ashburn)

Public Employment

Makes the fifth level of the 1959 Survivor Benefit Program a permanent benefit for State and school members by eliminating the January 1, 2010 sunset date. The bill also approves an MOU addendum between the State and California Highway Patrol members that initiates the prefunding of retiree health benefits.

FEDERAL UPDATE

As the largest pension fund in the United States, CalPERS has a unique perspective to offer on public policy issues. In addition to being a major institutional investor, CalPERS is the third largest health insurer in the country, factors that give it significant influence in the two biggest domestic issues considered by Congress in the past year. The CalPERS Board of Administration takes seriously the responsibility that comes with this position and worked in 2009 to guide legislative efforts on health care reform and financial regulation reform in a direction beneficial to members and the nation as a whole.

CalPERS is a longtime advocate of comprehensive health care reform and has worked to advance the issue for several years, both on its own and through its membership in the Public Sector Health Care Roundtable and the National Coalition on Health Care. Those efforts showed significant results in 2009.

The legislative year began with the enactment of an economic stimulus bill in February that included funding for several of CalPERS health care priorities, including health information technology improvements and comparative effectiveness studies. For much of the rest of 2009, lawmakers debated whether and how to overhaul the U.S. health care system. CalPERS mostly took a focused approach to the issue, supporting specific measures that would save money for the fund (and millions of Americans) while increasing the quality of care. The Board, for example, aggressively promoted legislation that would allow generic versions of biopharmaceuticals to enter the market after five years of exclusive sales by the

drug creator. It sent four letters to lawmakers during the year to explain how the measure would create “the type of real competition and cost containment the health reform debate consistently proclaims as its primary priority.”

CalPERS saw some progress on another of its priorities involving generic drugs this year. A Senate panel in October approved a bill that would ban agreements in which brand-name pharmaceutical companies essentially pay generic companies not to produce generic versions of their drugs. CalPERS officials have described these agreements to lawmakers as “anti-competitive and clearly harmful to a properly functioning drug market.”

CalPERS is recognized by the federal government as a leading voice on investment and corporate governance issues. As a result, as in years past, fund officials were asked several times to provide information and insight on investment-related public policy matters, especially as they related to attempts to revamp the regulatory structure in the wake of the financial crisis.

In April, CalPERS staff met with the Securities and Exchange Commission (SEC) Chair Mary Schapiro, two SEC commissioners, and all five members of the Public Company Accounting Oversight Board (PCAOB). The members of the PCAOB encouraged CalPERS and other investors to be active participants in the financial reform debate. At the SEC, CalPERS representatives discussed multiple aspects of financial regulatory issues and pushed for several specific corporate governance reforms, including measures related to shareowner access to the proxy, executive compensation, broker voting, and environmental disclosures. A major focus of each meeting was the need to ensure that the SEC emerged from the reform debate as a powerful and well-funded advocate for investors. (The following month, CalPERS joined 13 other public pension plans in writing to Treasury Secretary Timothy Geithner to urge that the SEC “remain a strong, independent regulator of the capital markets.”) Each commissioner welcomed the opportunity to work closely with CalPERS and expressed a desire to maintain a dialogue regarding all of the issues that were discussed.

CalPERS endorsed the Shareholder Bill of Rights legislation drafted by Sen. Charles Schumer, D–N.Y., and Sen. Maria Cantwell, D–Wash., in May. CalPERS Chief Investment Officer Joseph Dear was asked to join Schumer and Cantwell when they unveiled the legislation.

Dear returned to Washington, D. C. in July to appear before the Senate Banking Committee’s Subcommittee on Securities, Insurance and Investment. During a hearing on hedge fund regulation, Dear provided insights on the investment product and offered guidance on how lawmakers should approach the issue.

“Policy makers, investors, regulators and the public need to accept that risk is inevitable and necessary; return without risk is like love without heartache — they go together,” Dear said. “If risk cannot be avoided then it has to be managed...regulatory agencies need resources, support and leadership to make the most of the authority granted to them so they can fulfill their mission.

Institutional investors also need the flexibility to invest, consistent with their fiduciary responsibilities, in an unconstrained investment opportunity set. This is critical to enable public pension funds to meet our obligations. Limitations on the universe of available investments will potentially reduce our ability to generate the needed returns and may increase the risk of the plan.”

In September, Eric Baggesen, CalPERS senior investment officer for global equity, spoke at a hearing held by the SEC and the Commodity Futures Trading Commission (CFTC) to consider ways in which the agencies could work together. Baggesen endorsed increased coordination between the SEC and CFTC, observing that “The current reality has led to a situation where market participants have created new instruments for risk transfer

that have attributes from both the commodity and security markets, while avoiding being subject to regulation from either. We believe that anything short of a complete partnering between the two regulatory entities will fail to adequately address the risks that have become so apparent.”

A few weeks later, Baggesen appeared before the House Oversight and Government Reform Committee to testify about the impact of credit rating agencies on institutional investors and the recent financial crisis. The agencies have been blamed by some critics for contributing to the nation’s financial problems by not sounding the alarm about the mortgage-backed securities that played a big role in the economic meltdown. Credit rating agencies’ “standards of business conduct are opaque, there are no agreed guidelines and their revenues are based on a fundamental conflict of interest,” said Baggesen, who went on to offer several suggestions for reforming the agencies.

Anne Simpson, CalPERS senior portfolio director for global equity, was chosen in September to be one of 19 members of the PCAOB’s inaugural Investor Advisory Group, which is to advise the oversight board on investment issues.

CalPERS has been active in pushing for legislation that would encourage the use of clean, renewable energy sources and slow climate change through the Investor Network for Climate Risk. The group in September released a statement in which it urged world leaders to work to reduce carbon emissions by between 50 and 85 percent by 2050.

As one of the most respected organizations in the nation on pension and benefit issues, CalPERS was also consulted by lawmakers and regulators on those subjects.

The Year Ahead

We are committed to protecting retirement and health care benefits for all our members and their families; minimizing costs to our employers; and prudently managing our investments to ensure

**long-term growth
of our fund.**

The my|CalPERS project is at the top of our operations priority list for the coming year. The comprehensive database system will transform the way members and employers interact with CalPERS and significantly alter how our employees process information and handle their day-to-day responsibilities. It is one of the largest cultural shifts in our organization's history.

A second priority for the new fiscal year is to continue to fulfill our core mission by sustaining the health and financial security of our members. We will continue to take an active role in discussions at both the State and national levels about health care reform, retirement security, and regulatory reforms of our financial markets. The solutions we offer will always be in the best interests of our organization, our members, and our employers.

As the debate over public pensions unfolds over the next year, we will serve as a resource to all parties and educate them about the facts and costs of defined benefit plans like CalPERS. We provide public employees superior retirement security because we have the resiliency to withstand — and recover from — market downturns. We are a long-term investor, and we believe that “slow and steady” wins the race. Unlike defined contribution plans — in which individuals typically make their own investment decisions — our assets are managed by professional investment managers.

To keep members, employers, and other stakeholders informed about our views on issues related to national health care reform, investments, and pension security, we established a new Web site — CalPERSResponds.com.

This site is devoted to presenting information about emerging issues and topics of interest to members and employers. It includes video conversations with CalPERS leaders on our investment strategy, the future of pensions, and how to control health care costs. Also included on the site are important facts about the value of defined benefit plans, such as the positive economic impact of public pension plans like CalPERS.

A third priority for the new fiscal year is CalPERS continuing commitment to become a “risk intelligent” organization and assess appropriate levels of risk in all our decisions. Our Board created the Ad Hoc Risk Management Committee to review and enhance the framework for system-wide risk of our governance and

operations, including our primary business of investments, health care, and retirement.

Our final priority focuses on leadership. Our Executive team is taking steps to enhance our effectiveness. As a result of this work, our organization will be led by a more cohesive, high-functioning executive management team.

The new fiscal year brings a new day at CalPERS. Despite the many challenges, our historical resiliency will assure the sustainability of our pension, health benefit, and investment programs. We have weathered a number of challenges over our long history, and with continued focus on our mission, we will ensure the long term security of our members, and minimize employer contributions.³⁹⁹¹

CalPERS Annual Report Goes Green

CalPERS is committed to reducing our carbon footprint. The 2009 Comprehensive Annual Financial Report (CAFR) and this Operations Summary are available for download on the CalPERS Web site, www.calpers.ca.gov. For questions, please contact the Office of Public Affairs at (916) 795-3991.



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